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Tree Nuts Market Update

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Product Brief

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Report Highlights:

Bulgaria is a growing market for tree nuts, especially for walnuts and almonds. The country is a net importer of almonds which is the leading premium noble nut on the market and enjoys stable and increasing demand. The Unites States is the main supplier on the market with record exports to Bulgaria in 2014 and a market share exceeding 60%. Bulgaria is a net producer and exporter of walnuts.

Areas and local production under tree nuts are growing quickly supported by the EU investment funds and subsidies with most new plantings put under organic certification. In 2014 however the local crop of almonds and walnuts was at a record low as a result of adverse weather. Prospects for MY2014/2015 trade are generally good although price sensitive demand may temporary impact almond consumption in the country.

General Information:
Almonds

Production: Bulgaria is a small almond producer with planted/harvested areas stable at around 1,000 HA, varying from 500 HA to 1,600 HA since 2007, and production from 300 MT to 1,000 MT (See Table 3). Production volumes are strongly correlated with the weather. Due to unfavorable climate conditions in 2014 of frosts, reoccurring and abundant rains, hail storms and a winter freeze, the almond crop was significantly reduced. The harvested area had a 2% growth to 564 HA, however, harvested orchards were only 34% of all planted almonds. The drastic decline in yields of 56% resulted in an equivalent 55% reduction in the crop to 449 MT.

Over the last three years, investment in almond orchards grew due to generous subsidies on investment for newly planted tree nuts orchards provided by the EU Rural Development Program. These orchards are usually organic or a combination of convention and organic (additional subsidies are provided for conversion into organic and for growing organic fruits). MinAg data about newly panted tree nuts orchards shows that in 2013 (the last available data) young plantations were 62% of all almond areas due to new investments. Organic orchards under walnuts, almonds, and hazelnuts in 2013 reached 8,947 HA compared to 5,981 HA in 2012 (MinAg Annual Report 2014) or 34% increase. Organic almond orchards are reported at 1,175 HA or 71% of all almond orchards. Almond growers can also benefit from direct subsidies for small farmers with area up to 30 HA in the period 2014-2020.

These new orchards, however, still face numerous challenges such as the lack of good planting genetics, insufficient farm knowledge and experience about proper growing technologies, lack of most appropriate farm equipment, etc. It is expected that average yields are likely to grow with gradual improvement in farm technology and management.

In March 2015, tree nuts farmers established the first industry association, the Association of Tree Nuts Producers and Processors. One of the goals of the new organization is to unite the industry and to make an effort to mitigate and eliminate the grey sector. Many of the members are new young farmers who use EU funds for tree nuts orchards. The association announced that orchard areas are growing and at least 300 HA-500 HA more will be planted in 2015/2016. The industry group also reported growing local and export demand.

Consumption: There is no official or industry data about consumption of almonds. The only publicly available data for consumption is published by the National Statistical Institute and includes per capita annual consumption of all types of nuts. It shows stable growth since 2008 and more than 20% increase in consumption in 2014 as compared to the previous year.

0.8 kg/person in 2008;
0.9 kg/person in 2009;
0.8 kg/person in 2010 and 2011;
0.9 kg/person in 2012 and 2013;
1.1 kg/person in 2014;

Note: Data does not include the food service and institutional sectors.

The average household purchases over the last three years also increased in volume and in unit price. In 2014, households purchased 17% more nuts for home consumption at 1.3% higher average price compared to 2013, as follows:

1.5 kg nuts at 9.09 leva/kg in 2012
1.8 kg nuts at 9.67 leva/kg in 2013
2.1 kg nuts at 9.80 leva/kg in 2014
Note: average 1.5 leva=1.0 US$ (the rate varies daily)

Based on the above data and industry interviews, we estimate total noble nuts consumption in the country at about 4,000 MT+ (almonds, walnuts, hazelnuts and pistachios). The share of almonds is estimated at 1,800 MT – 1,850 MT in the last three years (See Table 1). Trade sources indicate that the actual consumption may be higher up to 2,000 MT or more, however, there is no hard trade statistics data to support such estimate, and the assumption is that this estimate may include some grey sector sales. In terms of value sales, the noble nuts (and mainly almonds) are leading with 26% of nuts and seeds sales (BU1314).

Growth in consumption in MY2012 - MY2014 is mainly due to recent economic stabilization, improved spending of urban consumers and retail expansion. In MY2014, consumption may stagnate or decrease moderately due to reported higher prices of imported almonds in 2015 to date since the demand still remains price sensitive.

<u>Market Trends:</u> Currently, there are several trends on the tree nuts market.

- Market grows in volume but faster growth is foreseen in value with more added-value products on the market and more use of tree nuts in the food service sector;
- Increasing consumer attention and buying of healthy foods, including tree nuts;
- Increasing consumer attention and buying of raw tree nuts, especially mixed raw nuts as they are perceived as healthier than the baked nuts;
- Nuts are increasingly used more in cooking and in food service outlets, especially walnuts and almonds;
- Increasing consumer attention and buying of higher quality and branded tree nuts;
- Increasing consumer attention to the storage methods and packaging of tree nuts, especially preferred packaging in non-transparent packages which are believed to protect tree nuts from aflatoxins. According to a recent marketing study, 82% of consumers prefer to buy packaged and not tree nuts in bulk;
- Seasonality in consumption, usually sales around Christmas are 30%-35% higher than sales in the rest of the year;
- Increasing role of internet as a marketing tool, both for online sales and for the use of social networks as an opinion makers;
- Local market is competitive, there are about 10 major companies with national brands and a number of smaller regional suppliers/traders with local brands. All companies invest actively in new equipment and upgrading of their facilities;

- Legitimate suppliers/traders face challenges with the grey sector and illegal sales which are estimated to account to 10%-15% of the market.

Trade: Bulgaria is a net importer of almonds and annual imports are in the range of 1,600 MT-1,800 MT. Usually about 600 MT are imported from other EU countries such as Greece although trade sources report that most of these imports are of U.S. origin transshipments. The same is valid for imports from Canada. The bulk of imports are shelled almonds.

U.S. exports of almonds have grown in the past and in MY2013/14 the U.S. accounted for 940 MT (902 MT n MY2012/2013) or 53% of total imports for the marketing year. However, for the first half of MY2014/2015 U.S. exports of almonds declined sharply by 60% due to the strong dollar and higher export prices of U.S. almonds.

According to USDA BICO reports, U.S. exports of almonds to Bulgaria in CY2014 had a very significant growth of 27% in value to US$ 9.6 million, the highest ever exports to Bulgaria. The category of all U.S. tree nuts exports grew by 27% to the record to date of US$ 11.02 million. In tonnage, U.S. almonds exports increased by 9% to 1,104 MT, and all tree nuts exports reached 1,306 MT or an increase of 12%.

Stocks: There is no data for stocks and no estimates are done assuming the figures are below 500 MT.

Table 1. Production, Supply and Demand, Almonds, MY2012-2015, MT

Bulgaria	**MY2012** **Sep 2012-August 2013**	**MY 2013** **Sep 2013-August 2014**	**MY2014** **Sep 2014-Augsut 2015**	**MY2015-** **Sep 2015-August 2016**
	Final	Final	Estimate for the current year	Forecast
Beginning Stocks	0	0	0	0
Production	150 (495 in shell)	303 (999 in shell)	136 (449 in shell)	200
Imports from EU	608	621	600	600
Imports from non-EU	990	1,147	1,100	1,050
Total Imports	1,598	1,768	1,700	1,650
Total Supply	1,748	2,071	1,836	1,850
Exports EU	28	223	30	30
Exports to non-EU	0	0	0	0
Total exports	28	223	30	30
Human Consumption	1,720	1,848	1,806	1,820
Ending Stocks	0	0	0	0
Total Distribution	1,748	2,071	1,836	1,850

Notes: *Production* data is provided by statistics in in-shell basis and is converted in shelled weight for the purpose of the Supply and Demand Table (divided by 3.3 conversion index per USDA methodical guidance). Due to discrepancy between official Bulgarian MinAg data and Eurostat data in select years, local official data is used as it is believed that it is more accurate.
Trade data is given in shelled weight: HS#080212 (shelled) data is summarized with the converted (divided by 3.3) data for HS#080211 (in-shell), for imports and for exports. Data for MY2014/2015 is currently available as of March 2015 and it is estimated on this basis, while MY2015/2016 is forecast.

Walnuts

Production: Walnut production is traditional for the country. Planted/harvested areas have varied throughout the years depending on the climate and availability of labor force. In general, production consists of walnut orchards and single standing trees. In 2014, walnut production was record low with a 39% decline in harvested areas, 61% decline in yields, and 76% reduction in production due to unfavorable weather (see Table 3 and the almond section). Harvested areas were only 29% of total planted area.

Walnuts plantings ranked second after cherries in total fruit acreage in the country (MinAg Statistical Bulletin #267 June 2014) with 17% of total fruit acreage (cherries accounted for 21%) in 2013/2014. South Central and North Central regions lead with the highest walnut acreage while North Central region leads with the highest production (usually about half of total supply).

Similar to almonds, over the last three years, investment in walnut orchards grew due to the subsidies for newly planted tree nuts orchards and for organic orchards from the EU Rural Development Program. Young walnuts orchards accounted for 30% of all new young fruit plantations in 2013 thus leading all newly planted orchards (cherries are second with 17% of all young orchards). Young walnut plantations were 47% of all walnut areas. Out of total organic 8,947 HA tree nuts orchards, the largest were those under walnuts with 66%. They grew from 3,896 HA in 2012 to 5,889 HA in 2013 (MinAg Annual Report 2014) or by 51%.

Walnuts farmers can benefit from direct subsidies for small farmers with area up to 30 HA in the period 2014-2020. In addition, walnuts are eligible for direct payments per areas of about 507 Euro/HA (estimate) for the period 2015-2020.

Based on the trade and consumption data, total distribution in the country is not balanced with total supply. It is assumed that a lot of walnut production, especially walnuts from single standing trees, is not reported and/or is heavily underreported. There are small companies in the countryside which collect and/or purchase walnuts but do not keep records or report through official channels. For the purposes of the supply and demand balance, the AgOffice has attempted to estimate underreported production and trade for MY2012-2014. These estimates are shown in the line of beginning stocks.

Consumption: There is no official or industry data about walnut consumption (please see the almond section). Consumption is estimated based on interviews with trade sources and statistical data. Trade sources indicate that consumption is around 1,250 MT-1,350 MT. Industry also indicates growth in consumption in MY2012/2013 – MY2014/2015.
Still, there is additional walnut consumption, especially in the rural areas, which remains outside

commercial channels. Trade sources estimate consumption as improving and stabilizing due to recent economic revitalization. In MY2015, consumption is likely to increase.

Trade: Bulgaria is a net exporter of walnuts, shelled, and in-shell as the in-shell exports dominate. Major export markets are Turkey, Greece, Albania, and Iraq as well as EU countries such as Romania, Hungary, and Italy. For the first half of MY2014, in-shell and shelled exports were about 60% lower compared to the corresponding period in the previous season.

Imports are around 1,000 MT -1,200 MT annually with the major supplier Ukraine, followed by Moldova. Shelled imports prevail. For the first half of MY2014, in-shell imports are almost 3 times higher than in the same period last marketing year. Shelled imports are lower.

Stocks: There is no data for stocks and no estimates are done assuming the figures are below 500 MT.

Table 2. Production, Supply and Demand, Walnuts, MY2012-2015, MT

Bulgaria	**MY2012** **(Oct. 2012 – Sep. 2013)**	**MY2013** **(Oct.2013-Sep. 2014)**	**MY2014** **(Oct.2014-Sep 2015)**	**MY2015** **(Oct.2015-Sep 2016)**
	Final	Final	Estimate for the current year	Forecast
Beginning Stocks	2,133*	5,424*	3,144*	0
Production	2,925	5,099	1,216	4,650
Imports from EU	524	206	450	400
Imports from non-EU	580	271	580	600
Total Imports	1,104	477	1,030	1,000
Total Supply	6,162	11,000	5,390	5,650
Exports EU	3,328	4,615	2,800	2,900
Exports to non-EU	1,595	5,105	1,300	1,400
Total exports	4,923	9,720	4,100	4,300
Human Consumption	1,239	1,280	1,290	1,350
Ending Stocks	0	0	0	0
Total Distribution	6,160	11,000	5,390	5,650
Notes: *Production* data is converted in in-shell basis for the purpose of the Supply and Demand Table (multiplied by 3.3 conversion index per USDA methodical guidance). Due to discrepancy between official Bulgarian MinAg data and Eurostat data in select years, local official data is used as it is believed that it is more accurate. *Trade data* is given in in-shell weight: HS#080231 (in-shell) data is summarized with converted (multiplied by 3.3) data for HS#080232 (shelled), for imports and for exports. Data for MY14/15 is currently available as of March 2015 and it is estimated on this basis, while MY15/16 is forecast.				

Table 3. Walnut and Almond Production, 2007-2014

Walnut and Almond Production, 2007-2014

	Harvested Area, HA	Average Yield, kg/HA	Production, MT
Walnuts			
2014	2,249 HA harvested	541	1,216
2013	7,873 HA; of them: 3,689 harvested (Eurostat data is the same); 3,700 young plantings; 577 HA non harvested	1,382	5,099
2012	2,629; NA	1,113; NA	2,925; NA
2011	5,192; 5,200*	463; 460	2,406; 2,400*
2010	5,251; 5,200*	236	1,240; 1,200*
2009	2,046; 7,600*	137	281; 300*
2008	1,628; 8,900*	260	422; 400*
2007	4,695; 8,900*	336	1,400; 1,400*
Almonds			
2014	564 harvested; 600*	796	449
2013	1,654; of them: 553 harvested; 1,034 young plantings; 70 non harvested	1,807	999
2012	NA;NA	NA;NA	NA;NA
2011	NA; 1,100*	636	NA; 700*
2010	900; NA	420	380; NA
2009	922; 500*	412;	380; 500*
2008	925; 1,900*	430	398; 100*
2007	922; 1,900*	320	295; 200*

Source: Ministry of Agriculture and Food, Bulgaria, Statistical Office
Note*: Indicates Eurostat data for Bulgaria when different from the Bulgarian MinAg data